

## RUSSIAN ENERGY DEPENDENCY AND THE CONFLICTING INTERESTS OF OLD AND NEW EUROPE

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### WAS SOFT SECURITY A MYTH?

When the new democracies of East Central Europe (ECE) were accepted as members of the European Union (EU), there was a widespread expectation among the new democracies that being part of the EU would provide crucial “soft security” in the event that Moscow reverted to more aggressive policies in the region. Indeed, some of the original members of the EU argued that just being part of the Union would provide all the security that could possibly be needed by new member states, particularly in light of Russia’s more pro-Western policies in the 1990s. The thinking in some quarters was that NATO membership was not necessary for Central European security in the current Europe as it would only make a psychologically-wounded Russia even more insecure and isolated. Some influential West Europeans, therefore, argued that membership in the EU alone would provide the security needed in the event that Russia might attempt to roll back the political sovereignty of the newly independent states. The U.S., however, strongly supported the desire of ECE countries to obtain security guarantees through membership in both NATO and the EU.

In light of the trauma brought about by the long-term occupation of the ECE countries by Soviet military forces, and continuing calls by Russian nationalists for greater Kremlin control over neighboring states, it was understandable that the soothing arguments of many West Europeans failed to stop ECE’s drive to obtain NATO’s Article V protection. Many Western Europeans, and some U.S. scholars, underestimated the deep fear of Russia imbedded in the minds of East Europeans. Even today, there are more than a few in Western Europe who dismiss as inconsequential the statements of Russian Prime Minister Vladimir Putin and President Dimitry Medvedev regarding Russia’s claim to a “privileged interest” in the space occupied by former Soviet “republics” and Warsaw Pact members.

The new NATO members, however, were more prescient than their western partners in predicting the emergence of authoritarian and semi-imperialistic policies promoted by a siloviki-backed Vladimir Putin. People in East Central Europe better understood the deep paranoia in Russia regarding alleged challenges to Russia’s national security. They also appreciate better than others the role that Russian insecurities have in driving Moscow’s desire to regain a large measure of control over neighboring states. West Europeans, who did not experience Soviet occupation, were lulled by the relative accommodative policies of the Gorbachev and Yeltsin years. And yet, already in the early 1990s several of the newer EU members had experienced

Russian oil and gas supply disruptions carried out by a Kremlin determined to use its energy resources in an attempt to influence the domestic policies of ECE countries, in part through acquiring control of Central Europe's pipelines, refineries, and other energy infrastructure.

## **EU POWER POLITICS AND ENERGY LEVERAGING**

Unfortunately, the European Commission has up to now failed to build an effective common EU-wide energy policy that would counter Moscow's use of oil and gas exports as a foreign policy instrument. This has left all of the member states, and particularly the ECE countries, exposed to the Kremlin's aggressive energy strategy. The Commission's strong support for the Russian-German Nord Stream gas pipeline and the acceptance by the EU Commissioner for Energy, and by the Italian, Austrian, and German governments of Russia's South Stream project, is a lesson in EU power politics. It demonstrates clearly that the democracies of Central Europe cannot count on the European Union to blunt Russia's bid to dominate the economic space between the Russian border and that of "old Europe."

If the Central Europeans intend to protect their newly won independence and the integrity of their democratic institutions, they must move quickly to build a "coalition of the like-minded," composed primarily of the newer EU countries and those original members with similar misgivings. These countries, in varying degrees, are concerned about Europe ceding greater political and security influence to an increasingly authoritarian and aggressive Russia. These member states can only protect their security interests through greater unity, thereby increasing their leverage in energy decision-making within the EU Council and the Commission.

Unfortunately for Europe's "new democracies," NATO is essentially a military organization. It is also inhibited from delving into the issue of energy security, largely the result of opposition within the Alliance from Germany, Italy, and France. Therefore, responsibility for energy security is left to the EU, where essentially the same coalition has opposed, on grounds of more narrow national interests, the creation of an effective and coordinated policy to deal with Russian energy. Therefore, ECE countries cannot look to NATO membership to protect them from Moscow's aggressive political leveraging of its energy exports.

## **REASSESSING RUSSIA**

The larger or wealthier member states, led by Germany, Austria, France, and Italy are significantly less concerned than the newer EU members about the downsides of becoming more dependent on Russian energy resources. Officials in these countries are often heard repeating the mantra that Russia is a reliable source of oil and gas – thereby ignoring Moscow's frequent use of energy disruptions as a tool to punish Central European governments. Being closer to the Atlantic or Mediterranean, the larger EU member states have more readily available alternatives to Russian fuel sources than do the ECE countries. The wealthier member states also too often put the lure of commercial business profit over regional security interests by partnering with a Kremlin determined to play a larger role in Europe's internal decision-making. This stems in part

from an exaggerated confidence in the ability of the EU to restrain Russia from using corruption to gain political influence in member countries or within the EU's own institutions.

The collapse of the Soviet Union led to expectations in the West that Russia would become a "normal European state," or at least a benign neighbor that could be counted on to engage in mutually beneficial business and cultural relations. And up until the beginning of Putin's second term as president there were hopeful signs. For the past five years, however, the ongoing transformation of Putin's Russia in the direction of an authoritarian Oriental-style "democracy" has brought back the old insecurities in the new democracies regarding Russia's foreign and defense policies. Meanwhile, the anti-Western and paranoid aspects of Russian thinking have been reinforced by the siloviki's need for an external enemy. This is promoted, in part, in order to justify the siloviki's increasing power at home, and their personal wealth that is accumulated through the non-transparent use of Russia's energy resources. Moscow's aggressive policies may be tempered by the reduction in Russia's economic influence resulting from the world financial crises. If it does happen, it may last only as long as oil prices are low. The reintroduction of military parades in Red Square does not auger well for the idea that we will see a fundamental tempering of Russian foreign policies.

The Kremlin's repeated claim that today's NATO poses a military threat to Russia, and that Moscow should have a veto, or even a strong say in the policies of the states of the former Soviet empire, cannot simply be ascribed to Western policy failures. It is more the result of the widening gap between the basic values of Russia's leaders and those in the Western democracies. Increased Russian military flights along European territory, accompanied by a continuing military buildup, derives more from domestic politics than from a reaction to NATO expansion or Western criticism of the stifling of democracy in Putin's Russia. NATO's eastward enlargement is not the primary reason for the upsurge in Russian nationalism and public support for the Kremlin's threats against Ukraine, Georgia and Western missile defense.

Moscow's opposition to NATO membership for former Warsaw Pact and Soviet republics stems from the fact that enlargement makes it more difficult, or perhaps even impossible, for Moscow to re-establish its Soviet-era influence in the region. Also important to Kremlin thinking is that NATO and EU membership for the ECE countries makes it less likely that Putin can achieve his goal of having Russia replace the U.S. as Europe's leading partner. This has not slowed the Kremlin's continued use of Soviet-era disinformation. Moscow has observed that its repeated assertion of the canard that NATO "promised" not to bring in new members if Russia allowed the reunification of Germany is accepted at face value by respected Western leaders. U.S., German, and Russian archives show that no commitment was ever made, and yet Moscow's simple repetition of the allegation has elicited a sympathetic response among Western politicians and scholars.

Concern in much of Europe regarding Moscow's tougher rhetoric and its increased military presence in the Barents and North Seas has not translated into increased European defense spending or greater military coordination by EU member states. Moscow's announcement that it would continue to build a more robust military force, its stationing of 15,000 more troops within Georgian territory, and the steady buildup of naval units in the "High

North” is met with silence by most of Europe. Even more importantly, the 2008-2009 disruptions of Russian energy supplies to Europe has resulted in only limited steps within the EU toward developing a coordinated energy policy. Meanwhile, Western European defense budgets continue to decline, even as Moscow unilaterally cancels its participation in the Conventional Forces agreement and threatens to station intermediate range missiles in Kaliningrad.

After Estonia was the target of a massive cyber attack by Russia on its political and financial institutions, the country received little support from the EU. In the absence of help from the EU, Estonia had to turn to support from NATO, which did supply technical assistance. This is just another example of the EU failure to provide “soft security” to its newest members.

Many Europeans, particularly in Germany, France, and Italy are counting on the younger generation of Russians to absorb “western values” and to construct a modern democracy in the near future. This hopeful thinking ignores Western polling data showing that new university graduates in Russia are considerably more anti-Western than are their parents.

## **WESTERN EUROPE’S ACCOMODATION**

This paper does not advocate a policy of hostility toward the Kremlin. Cooperation with Russia could reduce the risks from dangerous flash points around the world. The EU and U.S. do, however, need to push back with more vigor when Russia crosses the line of acceptable behavior in its dealings with East Central Europe. And when Russia uses its mineral resources as a means of gaining greater economic and political control over countries in Europe and Central Asia, it is imperative that the West, at a minimum, require Russian firms to abide by European transparency, accounting, and competition laws. The passive approach up to now on the part of the EU has only led Moscow to pursue a policy of increasing European dependency on Russian energy exports. The de facto acceptance by the EU of Moscow’s military occupation of the enclaves of South Ossetia and Abkhazia is viewed in the Kremlin as a sign of Western European weakness, even though it is a clear violation of the EU’s highly publicized agreement on Georgia, reached between President Medvedev and French President Nicolas Sarkozy. EU passiveness has only resulted in a stronger Russian military presence in South Ossetia and Abkhazia, a call for the overthrow of Georgia’s elected president, and the reiteration of Moscow’s claim to a “privileged interest” in the former Soviet space. Appeasement has only emboldened Russia’s leaders.

Allowing Russian troops to establish bases close to the vital Baku-Tblisi-Ceyhan oil pipeline, and in the vicinity of where the EU hopes to build the Nabucco gas pipeline, and where Georgia would like to construct the White Stream gas line, can only be welcomed by Russian military strategists. Therefore, it is understandable that Russian policymakers believe that they are acting rationally when they continue to use energy as a political tool within Europe. Unfortunately, the EU Council and Commission have too often demonstrated a weak sense of partnership with the newer member states east of the German border.

In spite of the war in Georgia and Russia’s militarization of the enclaves of Abkhazia and South Ossetia, there is a widespread impression in many European nations, particularly as

articulated by Germany's Social Democratic Party (SPD), that the best way to deal with a resurgent, nationalistic Russia is through more dialogue and increased demonstrations of "good will." There is a widespread view in parts of Europe that the West should dismiss as harmless rhetoric the Kremlin's more aggressive talk including threats to dismantle Ukraine or to station medium-range nuclear armed missiles in Kaliningrad. Further, there is no desire to demand reciprocity in Russian-EU foreign investment laws. Some politicians on the German left, have an exaggerated sense that they can persuade Kremlin leaders to become more "European." As a KGB officer, Putin gained great respect and even a liking for Germany. However, there is no evidence that this has resulted in moderation in any of Putin's foreign and domestic policies.

There has been no like response by continental European governments to the Kremlin's seizure of the energy assets of British, Italian, Dutch, and Italian companies over the past three to four years. The European private sector has reacted by investing somewhat less in Russia, but their governments have generally reacted passively to the Kremlin's cancelling of binding contracts, as has the EU's Energy Commission. Indeed, Russian companies' ability to buy strategic energy assets in Europe has not slowed, even in the wake of the economic downturn in Russia. The Medvedev/Putin government has ensured that funding for energy asset purchases is available even as Russia's foreign reserves shrink.

In Western Europe, only the UK seems inclined to push back against the Kremlin's harsher stance. The Litvinienko poisoning, the asset stripping of British Petroleum's interests in the rich Siberian gas field, the support of the Kremlin for BP's dispute with its Russian partner TNK, and the harassment and closure of British Council offices throughout the Russian Federation have had a deep impact in the UK. It is difficult to detect in Germany, Italy, France, and Austria a determination to take a harder look at the conduct of Moscow or its energy companies operating abroad. The lure of profit from Russia's energy resources even appears to checkmate EU and national laws and regulations requiring transparent and competitive business practices by Russian oil and gas importers.

## **CAPITULATION ON ENERGY PIPELINES**

Putin is locking up one energy deal after another; each one running counter to the EU's declared policy of building pipelines to bring more non-Russian oil and gas supplies to Europe. The EU's leadership has publicly announced its support for the construction of the Russian-German Nord Stream pipeline that will run under the Baltic Sea between Vyborg in Russia and Griefswald in Germany. This project will cost at least four times as much as either of the two alternative routes (Yamal II and Amber pipelines). In addition, it threatens the Baltic Sea with serious environmental damage. The Nord Stream project is clearly motivated on the Russian side by strategic rather than by commercial interests. Once completed, it could strengthen Russia's political hold over the Baltic States and Poland, as well as increase the overall cost of energy to the European consumer. The pipeline project makes a sham of the EU's purported policy of promoting greater competition in energy supplies and the diversification of the continent's natural gas sources.

Even Russia's independent energy specialists believe that the Nord Stream pipeline project has little justification economically. The EU Commission, however, has not explained how Nord Stream will increase European energy security or how it will provide European taxpayers with reasonably priced energy. There is good reason to believe that Qatari LNG can be landed in Europe for significantly less cost than piped gas from the yet-to-be developed Yamal or Shtokman fields can be sold in Germany. Why saddle the European consumer with the enormous recovery costs of these projects, particularly in light of Nord Stream's environmental and security risks? Why this support for a project clearly opposed by at least five EU member states – those whose sea beds and seashores are threatened, and who will become even more vulnerable to Russian energy blackmail once this pipeline is completed? Of course, it helps Moscow to have two former European leaders (Germany's Gerhard Schroeder and Finland's Pavel Lipponen) on the Board of Nord Stream, even though neither of their countries will benefit economically from this very expensive project. Hiring these two former officials, neither one an energy specialist, only illustrates the political motivation behind the pipeline deal.

At almost the same time that the 2007-2008 EU hearings on Nord Stream were taking place, Putin began direct negotiations with the leaders of Italy, Bulgaria, Hungary, Serbia, and Austria regarding the next stage of monopolizing eastern gas imports to Europe. Putin managed to secure approval (at least in principle) from those countries for the proposed Gazprom-controlled South Stream natural gas route – a direct challenge, if not a potentially fatal blow, to the EU's priority "Nabucco" project designed to bring Caspian Sea gas to Europe without going through Russia. What was the reaction of the EU to this undermining of a key energy project? Silence. Although curiously, the EU's Commissioner for Energy went on record as favoring Moscow's proposal. This is a venture that is enormously expensive, has no identifiable source of gas, and is designed only to bypass Ukraine. Some in the EU have recently revived efforts to reach producer and supplier agreements that would improve the chances of Nabucco being built. Nevertheless, the long delay in pursuing this project has made it less likely that Caspian producers, such as Turkmenistan and Kazakhstan will participate and that crucially needed support from Turkey and Azerbaijan will be forthcoming.

Even as the Russian military continues to complain about encirclement by NATO, the Kremlin is making significant progress in encircling Europe from north and south with gas pipelines, thereby ensuring Europe's greater economic and political dependency on Russia. The mystery is why this Russian policy is being abetted by important European leaders and by the key EU Commissioner.

The same passive reaction came from the EU in 2006 after Russia cut the supply of crude oil to EU member state Lithuania, following the sale of the country's refinery to a Polish, rather than a Russian company. Russia's monopoly oil supplier, Transneft, first stated that the flow of oil was stopped due to a sudden break in the Druzba pipeline to Lithuania. It refused, however, to allow Europeans to examine the alleged rupture. Transneft later dropped its sham explanation and simply stated that Lithuania would in the future receive no crude oil via the Druzba pipeline. After a long delay, European Commission President José Manuel Barroso wrote a letter to President Putin asking for an explanation. The Barroso letter was ignored by Moscow. After

three years, the pipeline is still blocked. Two years before that, a similar oil stoppage was directed against Latvia, after that country's refusal to sell its oil port at Ventspils to a Russia company.

Only in the second half of 2008 did the European Commission begin to pay much attention to the large energy suppliers of Central Asia. Up until then, the EU appeared willing to accept Russia's assertion that the countries of that region were in its sphere of influence; that prices for oil and gas from Turkmenistan, Kazakhstan, or Uzbekistan should be set by Moscow, and not by the supplier or consumer states. The EU played a relatively passive role in building support in Central Asia for the Baku-Tblisi-Ceyhan oil pipeline, and it has only recently given token support to the Nabucco gas pipeline project. It is no wonder that Central Asian producer states have frequently given in to pressure from Moscow to turn over the long-term control of their gas exports to Russia. Europe has until recently shown little interest in contesting Russia's monopoly position. The Central Asians clearly believe that Brussels will not likely provide them a meaningful alternative to the monopoly power of Gazprom.

The natural gas disruptions by Russia in January 2006, and the more serious one in January 2009, did increase European skepticism of Russian reliability. Unfortunately, more than three quarters of the new EU energy infrastructure funding dedicated to gas and electricity interconnectors is going to projects in Western Europe rather than to the "energy islands" in ECE.

Also disturbing, there appears to be a tendency in Germany, Italy, France, and Austria to blame the Ukrainians at least as much as Russia for the "gas wars." Europeans tend to ignore the fact that almost all of the metering of gas flows into and out of Ukraine have been controlled by Gazprom, that Russia's long-time Ambassador to Ukraine was previously the CEO of Gazprom, and that little happens in the Ukrainian gas business that does not go through Russian or Russian-controlled hands. It is much easier for large EU member states to blame the problem on squabbling politicians in Ukraine than to take effective measures to counter Russian energy imperialism. It is safer politically to point to alleged corruption within the more democratic of the two countries. Not surprisingly, the enormous sums spent by the Kremlin on public relations in Europe has been relatively successful in convincing superficially informed officials that Ukraine and Georgia were at fault during disputes with Russia. But it is difficult to imagine that EU officials do not know who is really "stealing gas" and/or where the profits from any gas diversion go.

## **MONEY TRUMPS UNITY**

While the European Commission continues to claim that it has no competency to approve or disapprove of Russia's pipeline initiatives in Europe, some high-level Commission officials publicly endorse the politically-motivated Russian pipeline projects. It is a small wonder then that many of the newer member states have concluded that EU membership cannot be counted on to protect them from Russian economic coercion. This leaves the ECE members even more

vulnerable to direct pressure from Russia for bilateral energy agreements that may be detrimental, not only to their long-term security interests, but to those of the region at large.

The EU is a community of very diverse nations. The institution is relatively new, still lacking transnational power in many areas. But the ECE countries face an uphill battle even to secure consideration of their energy interests by the Commission. France and Germany can ignore the Union's competition rules by refusing to unbundle their own energy companies. Yet when a member state such as Hungary attempts to protect its own energy firm MOL from a hostile takeover by Austria's OMV bid, the EU's first reaction was to apply pressure to the Hungarians, even though the Austrian government itself had taken steps to ensure that a foreign takeover of OMV was impossible. Austria recently ceded control of its crucial gas storage area and gas trading floor at Baumgarten to Gazprom, thereby creating even less security for its ECE neighbors. Russia may have been a "reliable partner" for the Austrians, but certainly not for Austria's neighbors. The sale in late March 2009 of OMV's 22% stake in MOL (at double the market price) to the Kremlin-controlled Surgetneftegaz even more clearly demonstrated the willingness of Austria to act as the surrogate for Russia. The slashing of oil shipments to the Czech Republic by Russia in 2008 was a direct result of Prague's signing a missile defense agreement with the U.S. And yet, any negative reaction within the European Commission to the disruption was difficult to detect.

More solid information is now available regarding the extremely large payments by the Russian government and Russian energy companies to public relations and law firms in Western capitals. The obvious intent is to influence public opinion, and in some cases to intimidate academic and journalistic critics of Russian energy policies. The Kremlin and its energy companies are now making more concerted efforts to fund respected Western foreign policy institutions and even universities. One can already see some scholars and journalists hedging their views on Russia as a result of these "financial contributions." Why would a Russian company pay a Washington public relations firm \$250,000 a month if it did not think it was getting its money's worth? We must assume that the same is going on in European capitals, where the reporting requirements regarding foreign payments are either non-existent or are not enforced. It would be naïve not to assume that there are sizable financial flows to Western companies and politicians that are never disclosed.

## **RESPONSIBILITIES OF THE CENTRAL EUROPEANS**

The EU must become more active in curbing non-transparent energy producers, in enforcing anti-trust laws, and in combating corruption in the energy business. At the same time, the new member states must do significantly more themselves to ensure business transparency and to weed out corruption within their own countries. The large amount of money generated for politicians and business interests in Europe that is financed through energy imports from the East has had a visibly corrosive effect on the "new democracies." The EU and the U.S. must work more closely with ECE states to counter these corrupting influences. The larger and wealthier

members of the EU would also be protecting their own business investments by defending the newer member states against imported corruption and non-transparent business practices.

All of the responsibility for the EU's passive energy policy cannot be laid at the door of the EU or West European member states. The new members have neglected to push their interests in an effective manner within the Commission. There has been little cooperation by those states in creating coalitions to counter the control of EU energy policy by the more powerful members. Without greater East Central European coordination, the Commission is going to take the easy way out and back those who exert the greatest influence – financially and politically within the EU.

At the same time, most of the new member states have not been authorized by the EU to spend their infrastructure funding on long-term energy projects. Although these projects would not bring immediate profit, they would bring a greater measure of freedom from oil and gas disruptions on the part of Russia. Only the Czech Government has funded alternative pipelines, such as their oil route built in the mid-1990s designed to import Norwegian oil in the event of a Russian disruption. The wisdom of the Czech project was clearly seen when Russia substantially reduced shipments of oil after Prague signed the missile defense agreement with the U.S. in July 2008. The leverage given the Czechs resulted in increased total imports of oil and a subsequent decision by Moscow to stop “punishing” the Czechs for signing on with the Americans.

Most of the other new member states have developed elaborate plans to construct energy security infrastructure. Unfortunately, not enough has been done to either effectively coordinate action with neighbors or to commit funding to needed projects. The Czechs had the advantage of being accepted as an EU member in the first wave of post-Soviet expansion, and they had funding support from Germany for their oil pipeline project. However, internal political disputes and frequent government changes in most of the other ECE states have resulted in more paralysis than action on the energy front.

Russia itself would benefit from being forced to adopt more competitive and less coercive commercial relations with its neighbors. An aggressive energy policy by the Kremlin is not in any of the parties' self interests – except for those few individuals who are sucking enormous profits from the present system. A stable, transparent, and business-like energy relationship between Russia and Europe would benefit both sides. Russia would garner greater Western trust, allowing it to count on long-term supply contracts, as well as greater help in financing development of the hugely expensive energy sources in the Barents Sea, the Yamal region, and in Eastern Siberia. Europe would have a reliable source of hydrocarbons and would not have to worry about any more mid-winter disruptions of energy or the business and political corruption that come from Russian non-transparency. There would be no need to burden consumers by building the expensive Nord Stream and South Stream projects.

With some justification the term “unilateralism” has too often become associated in Europe with U.S. alleged lack of cooperation with the international community in resolving tough issues, such as global warming and international courts. At the same time, however, some West Europeans have ignored the striking lack of “multilateralism” within the EU on both energy and military security issues.

The older members of the EU too often complain about opposition in the ECE states to specific EU policies on Russia, claiming that the new members unreasonably hinder the progress of EU-Russian partnership agreements. But more often, the policies of the EU are presented to the Central Europeans on a take it or leave it basis. This makes it all the easier for the Kremlin to exploit divisions among the EU countries, resulting in the newest and weakest members striking concessionary energy deals. Some of these agreements will unquestionably roll back some of the progress made over the last eighteen years by the new ECE democracies. Surely this is not an outcome we all anticipated during the hopeful days of the Cold War's demise.

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